

Message Text

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PAGE 01 ABU DH 00424 210946Z

41

ACTION EB-07

INFO OCT-01 EA-07 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /097 W

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R 210922Z FEB 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3932

INFO AMEMBASSY TEHRAN

AMEMBASSY KUWAIT

AMEMBASSY DOHA

AMEMBASSY TOKYO

USINT BAGHDAD POUCH

C O N F I D E N T I A L ABU DHABI 0424

E.O. 11652: GDS

TAGS : ENRG, TC

SUBJECT : ABU DHABI ON-SHORE GAS PROJECT

1. ADNOC HAS NOW NARROWED COMPETITION FOR DESIGN, PROCUREMENT, AND MANAGEMENT OF ITS \$1.2 BILLION ON-SHORE LPG PROJECT TO SHORT LIST OF THREE OR FOUR FIR , OF WHICH WE UNDERSTAND US FIRMS BECHTEL AND FLUOR ARE FRONT-RUNNERS. COMPANIES HAVE BEEN TOLD THAT ACTION TO NARROW

FIELD FURTHER MUST BE SUSPENDED FOR AWHILE TO AWAIT ADNOC DISCUSSIONS WITH VARIOUS FIRMS FOR POSSIBLE EQUITY PARTICIPATION. FOUR ENGINEERING FIRMS HAVE BEEN PROMISED THAT DECISION AS TO WHETHER THERE WILL BE INDUSTRY EQUITY PARTNERS IN PROJECT, OR ALTERNATIVELY WHETHER ADNOC WILL PROCEED ON SOLE RISK BASIS, WILL BE MADE BY APRIL 1.

2. ON POSSIBLE EQUITY PARTNERSHIP, ADNOC IS CONDUCTING TALKS WITH FOUR US GAS DISTRIBUTORS, AS WELL AS ADPC

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PAGE 02 ABU DH 00424 210946Z

GROUP (LATTER'S INTEREST HOWEVER APPEARS LUKEWARM). ADNOC

HOPES INDUSTRY FIRMS AMONG THEM CAN

TAKE 40 PERCENT EQUITY INTEREST IN PROJECT. DEAL BEING TALKED

ABOUT WOULD SEEK TO ESTABLISH BASIC RATE OF PROFIT RETURN FOR INDUSTRY

Y

PARTNERS, WITH PRICE OF GAS GOVERNMENT CHARGES COMPANY ADJUSTABLE WITHIN

HIN

LIMITS TO PRODUCE THIS RETURN. ANY PROFITS OVER AND ABOVE THIS IN GO

OD

YEAR WOULD BE SPLIT 50/50 BETWEEN GAS COMPANY AND GOVERNMENT

(I.E. PRICE OF GAS WOULD BE ADJUSTED UPWARD), BUT THERE WOULD ALSO BE

FLOOR PRICE FOR GAS, SO THAT IF MARKET FELL BELOW CERTAIN POINT,

INDUSTRY PARTNERS RATE OF RETURN WOULD DECLINE; IN OTHER WORDS, BELOW

"FLOOR" PRICE, INDUSTRY PARTNERS WOULD TAKE FULL BURDEN OF LOSS. TAX

RATE WOULD BE FIXED AT 55 PERCENT. ON RATE OF RETURN, ADNOC HAS

PROPOSED 15 PERCENT, NOT ENOUGH IN OPINION OF ONE FIRM WE TALKED TO,

BUT ADNOC HAS APPARENTLY INDICATED THEIR OFFER IS FLEXIBLE.

3. WITH ASSURED MARKETING CONTRACTS IN HAND FROM EQUITY PARTNERS,

ADNOC AND INDUSTRY FIRMS THEY ARE NEGOTIATING WITH BELIEVE THEY

WILL BE ABLE TO RAISE 70 PERCENT FINANCING FOR PROJECT.

US FIRMS SOMEWHAT CONCERNED, HOWEVER, ABOUT US MARKET FOR BUTANE,

AND ONE HAS RECOMMENDED THAT ADNOC SEEK TO BRING INTO CONSORTIUM

JAPANESE FIRM BECAUSE OF READY MARKET FOR BUTANE IN JAPAN.

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